

Financial Statements of

ISLANDS TRUST

Year ended March 31, 2016

ISLANDS TRUST

Financial Statements

Year ended March 31, 2016

Financial Statements

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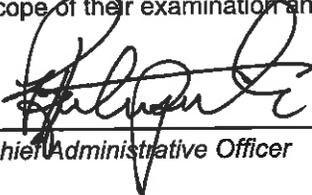
MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Islands Trust (the "Trust") are the responsibility of the Trust's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting standards for local governments as established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Trust's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Trust, acting through its Audit Committee, meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by Trust Council. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Trust's financial statements.



Chief Administrative Officer



Treasurer



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Victoria BC V8W 3Y7
Canada
Telephone (250) 480-3500
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INDEPENDENT AUDITORS' REPORT

To the Trustees of Islands Trust and the Minister of Community, Sport and Cultural Development

We have audited the accompanying financial statements of Islands Trust, which comprise the statement of financial position as at March 31, 2016, the statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Islands Trust as at March 31, 2016, its results of operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

June 15, 2016
Victoria, Canada

ISLANDS TRUST

Statement of Financial Position

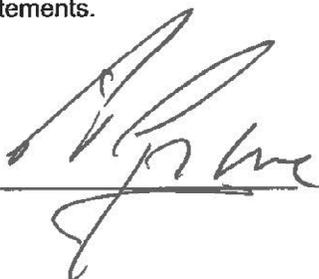
March 31, 2016, with comparative information for 2015

	2016	2015
Financial assets:		
Cash and cash equivalents (note 2)	\$ 2,711,491	\$ 2,758,947
Accounts receivable	358,102	86,384
Investments (note 3)	1,003,197	1,003,156
	<u>4,072,790</u>	<u>3,848,487</u>
Liabilities:		
Accounts payable and accrued liabilities	416,592	298,489
Wages and benefits payable	1,064,820	1,049,837
Deferred revenue	44,108	53,349
Employee benefit obligations (note 4)	105,443	81,224
Obligations under capital leases (note 5)	93,776	46,475
Cost recovery deposits (note 13(b))	6,642	3,439
	<u>1,731,381</u>	<u>1,532,813</u>
Net financial assets	2,341,409	2,315,674
Non-financial assets:		
Tangible capital assets (note 6)	137,397	91,605
Prepaid expenses	40,913	59,190
	<u>178,310</u>	<u>150,795</u>
Commitments (note 11)		
Contingent liabilities (note 12)		
Accumulated surplus (note 7)	\$ 2,519,719	\$ 2,466,469

The accompanying notes are an integral part of these financial statements.

Approved by the Trust Council:


Trustee


Trustee

ISLANDS TRUST

Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

	Budget (note 9)	2016	2015
Revenue:			
Property tax - general	\$ 6,187,953	\$ 6,187,953	\$ 6,126,685
Property tax levy - Bowen Island Municipality	213,766	213,766	214,654
Property tax - special requisition	119,500	119,500	110,000
Government transfers (note 8)	180,000	430,898	275,284
Fees and sales	110,000	132,273	89,533
Interest income	100,000	55,976	54,957
Other income	-	5,257	5,556
Total revenue	6,911,219	7,145,623	6,876,669
Expenses (note 10):			
Council services	1,062,853	1,020,080	1,104,264
Local trust committee services	5,506,621	5,468,019	5,147,708
Trust fund services (note 13)	684,971	604,274	583,305
Total expenses	7,254,445	7,092,373	6,835,277
Annual surplus (deficit)	(343,226)	53,250	41,392
Accumulated surplus, beginning of year	2,466,469	2,466,469	2,425,077
Accumulated surplus, end of year	\$ 2,123,243	\$ 2,519,719	\$ 2,466,469

The accompanying notes are an integral part of these financial statements.

ISLANDS TRUST

Statement of Change in Net Financial Assets

Year ended March 31, 2016, with comparative information for 2015

	Budget (note 9)	2016	2015
Annual surplus (deficit)	\$ (343,226)	\$ 53,250	\$ 41,392
Acquisition of tangible capital assets	-	(25,935)	(30,476)
Acquisition of tangible capital assets through capital lease	-	(75,631)	(5,213)
Amortization of tangible capital assets	65,000	49,688	59,406
Loss on disposal of capital assets	-	6,086	-
	(278,226)	7,458	65,109
Acquisition of prepaid expenses	-	18,277	(6,917)
Change in net financial assets	(278,226)	25,735	58,192
Net financial assets, beginning of year	2,315,674	2,315,674	2,257,482
Net financial assets, end of year	\$ 2,037,448	\$ 2,341,409	\$ 2,315,674

The accompanying notes are an integral part of these financial statements.

ISLANDS TRUST

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 53,250	\$ 41,392
Items not involving cash:		
Amortization of tangible capital assets	49,688	59,406
Loss on disposal of tangible capital assets	6,086	-
Change in non-cash operating assets and liabilities:		
Accounts receivable	(271,718)	(31,113)
Wages and benefits payable	14,983	64,568
Accounts payable and accrued liabilities	118,103	3,272
Deferred revenue	(9,241)	(632)
Employee benefit obligations	24,219	(13,314)
Cost recovery deposits	3,203	(6,236)
Prepaid expenses	18,277	(6,917)
Net change in cash from operating activities	6,850	110,426
Capital activities:		
Acquisition of tangible capital assets	(25,935)	(30,476)
Investing activities:		
Purchase of Investments	(41)	(1,003,156)
Financing activities:		
Principal payments on obligations under capital leases	(28,330)	(14,003)
Change in cash and cash equivalents	(47,456)	(937,209)
Cash and cash equivalents, beginning of year	2,758,947	3,696,156
Cash and cash equivalents, end of year	\$ 2,711,491	\$ 2,758,947
Supplemental cash flow information:		
Assets acquired under capital lease	\$ 75,631	\$ 5,213

The accompanying notes are an integral part of these financial statements.

ISLANDS TRUST

Notes to Financial Statements

Year ended March 31, 2016

Islands Trust (the "Trust") is incorporated under the Islands Trust Act of British Columbia (as amended). The objectives of the Trust are to preserve and protect the Trust area and its unique amenities and environment for the benefit of the residents of the Trust area and of the Province generally.

1. Significant accounting policies:

The financial statements of Islands Trust are prepared by management in accordance with Canadian public sector accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Trust are as follows:

(a) Reporting entity:

The financial statements include a combination of all the assets, liabilities, revenues, expenses, and changes in fund balances and in financial position of the trust council and the local trust committees.

The Trust occasionally conducts work on behalf of development applicants on a cost-recovery basis. These trust activities are not included in the financial statements.

(i) Consolidated entities:

The Trust does not control any significant external entities and accordingly no entities have been consolidated with the financial statements.

(ii) Funds held in trust:

The Trust administers operations of The Islands Trust Fund. The annual expenses of The Islands Trust Fund are reported by the Trust in accordance with The Islands Trust Act (note 13).

(b) Basis of accounting:

The Trust follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(c) Revenue recognition:

Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability under section PS 3200 of public sector accounting standards.

Revenue unearned in the current period is recorded as deposits or deferred revenue.

Tax revenue is recognized on an accrual basis.

(d) Cash and cash equivalents:

Cash and cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition. Investments in the Municipal Finance Authority of British Columbia ("MFA") Bond and Money Market Funds are recorded at cost plus earnings reinvested in the funds. Investment income is reported as revenue in the period earned.

(e) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding government or related Act, investment income earned on restricted funds is added to the investment and forms part of the deferred revenue balance.

(f) Employee future benefits:

The Trust and its employees make contributions to the Public Service Pension Plan, which provides benefits directly to employees upon retirement. These contributions are expensed as incurred.

A gratuity is also available to employees upon retirement. The cost of this benefit is born by the Public Service Pension Plan.

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(g) Liability for contaminated sites:

A liability for contaminated sites is recognized when a site is not in productive use and the following criteria are met:

- (i) an environmental standard exists;
- (ii) contamination exceeds the environmental standard;
- (iii) the Trust is directly responsible or accepts responsibility
- (iv) it is expected that future economic benefits will be given up; and
- (v) a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

(h) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Furniture and equipment	5
Computers	3
Leasehold improvements	lesser of remaining term of the lease and useful life

Amortization is charged annually, including in the year of acquisition and disposal. Assets under construction are not amortized until the asset is available for productive use.

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(h) Non-financial assets (continued):

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Trust's ability to provide goods and services, or when the value of future economic benefits associated with the asset are less than the book value of the asset.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Works of art and historical treasures:

Works of art and historical treasures are not recorded as assets in these financial statements.

(iv) Interest capitalization:

The Trust does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities. Actual results could differ from these estimates.

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Cash and cash equivalents:

	2016	2015
Bank account balances	\$ 1,074,332	\$ 1,103,436
Municipal Finance Authority Bond Fund	-	68,613
Municipal Finance Authority Money Market Fund	-	82,378
Raymond James GIC	1,637,159	1,504,520
	<u>\$ 2,711,491</u>	<u>\$ 2,758,947</u>

3. Investments:

Investments consist of a guaranteed investment certificate with a cost that approximates market value. It has a stated interest rate of 1.80% and a maturity date of January 26, 2017.

4. Employee benefit obligations:

The Trust provides sick leave and certain other benefits to its employees and are recorded as follows:

	2016	2015
Vacation pay	\$ 73,269	\$ 61,954
Compensatory time off	32,174	19,270
	<u>\$ 105,443</u>	<u>\$ 81,224</u>

Vacation pay and compensatory time off represent the liability for accumulated banks for draw down at future dates and/or for payout on approved retirement, or upon termination or death.

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

4. Employee benefit obligations (continued):

Other pension plans

The Trust and its employees make contributions to the Public Service Pension Plan (the "Plan"), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 54,000 active members and approximately 42,000 retired members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and adequacy of Plan funding. The most recent valuation as at March 31, 2014 indicated a surplus of \$392 million for basic pension benefits. The next valuation will be as at March 31, 2017, with results available in 2018. The actuary does not attribute portions of the unfunded liability or surpluses to individual employers. Contributions to the plan by the Trust totaled \$290,507 (2015 - \$278,097) during the year.

5. Obligations under capital leases:

The amounts due for obligations under capital leases are as follows:

2017	\$	38,828
2018		30,613
2019		17,273
2020		9,629
2021 and thereafter		6,296
Total minimum lease payments		102,639
Less amounts representing interest (at rates ranging from 4.25% to 5.25%)		8,863
Present value of net minimum capital lease payments		\$ 93,776

Interest of \$1,582 (2015 - \$1,854) relating to capital lease obligations has been included in expenses on the statement of operations.

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

6. Tangible capital assets:

	Denman Island Site	Furniture and equipment	Computers	Leasehold improvements	Total 2016	Total 2015
Cost:						
Balance, beginning of year	\$ 10,000	\$ 112,977	\$ 198,942	\$ 249,822	\$ 571,741	\$ 541,351
Additions	-	75,631	25,935	-	101,566	35,689
Disposals	-	(18,654)	-	-	(18,654)	(5,299)
Balance, end of year	10,000	169,954	224,877	249,822	654,653	571,741
Accumulated amortization:						
Balance, beginning of year	10,000	68,726	167,497	233,913	480,136	426,029
Disposals	-	(12,568)	-	-	(12,568)	(5,299)
Amortization expense	-	23,108	22,655	3,925	49,688	59,406
Balance, end of year	10,000	79,266	190,152	237,838	517,256	480,136
Net book value, end of year	\$ -	\$ 90,688	\$ 34,725	\$ 11,984	\$ 137,397	\$ 91,605

Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. There were no contributed assets received during 2016 or 2015.

In fiscal 1994, the Denman Island Ratepayers' Association donated \$10,000 which was used by the Trust to purchase the Denman Island Old School Site from School District #71. The Trust agreed to facilitate the sale of the school site between School District #71 and the Ratepayers' Association and to hold title to the property on behalf of the community. The Denman Island Ratepayers' Association has leased the building on the site from the Trust for 99 years for a total fee of \$10.

Included in tangible capital assets is assets under capital leases with a net book value of \$91,516 (2015 - \$45,079).

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Accumulated surplus:

Accumulated surplus consists of:

	2016	2015
Invested in tangible capital assets	\$ 43,621	\$ 45,130
General Revenue Fund	2,476,098	2,378,358
Special property tax requisition fund	-	42,981
	<u>\$ 2,519,719</u>	<u>\$ 2,466,469</u>

8. Government transfers:

Government transfers recorded as revenue on the statement of operations are comprised of:

	2016	2015
Provincial operating grant	\$ 123,052	\$ 182,770
Lasqueti energy project	278,268	65,289
Salt Spring Island Water Protection Project	11,823	19,677
Other	17,755	7,548
	<u>\$ 430,898</u>	<u>\$ 275,284</u>

9. Budget data:

The budget data presented in these financial statements is based upon the 2016 operating budget approved by Trust Council on March 11, 2015. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenue	\$ 7,189,445
Less appropriation from surplus	278,226
	<u>6,911,219</u>
Expenses	7,254,445
Annual deficit	<u>\$ (343,226)</u>

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

10. Classification of expenses by object:

	2016	2015
Staff salaries and benefits	\$ 4,003,460	\$ 3,999,500
Traveling/training and recruitment	210,249	179,522
Council and trustee costs	812,513	800,976
Office operations	932,044	902,017
Programs	768,332	478,671
Legal	316,087	302,772
Elections	-	112,413
Amortization	49,688	59,406
	<hr/> \$ 7,092,373	<hr/> \$ 6,835,277

11. Commitments:

Minimum annual lease payments:

The Trust is committed to leases for rented premises. Minimum future payments in the next five years are as follows:

2017	\$ 364,632
2018	205,417
2019	1,445
2020	1,445
2021	1,445

12. Contingent liabilities:

In the normal course of operations, claims for alleged damages are made against the Trust. The Trust records an accrual in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. The remaining claims, should they be successful as a result of litigation, will be recorded when a liability is likely and determinable. The Trust is covered through an independent insurance program against certain claims.

ISLANDS TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2016

13. Trust activities:

(a) Trust Fund:

The Trust pays the administration expenses of The Islands Trust Fund (the "Fund") which is related through the composition of the Fund's Board. The Fund is empowered to accept donations, grants and bequests and to hold land and other property in compliance with a plan approved by the Ministry of Community, Sport and Cultural Development. The Fund's Board is comprised of three members from Trust Council and up to three members appointed by the Minister of Community, Sport and Cultural Development.

For financial reporting purposes, the Trust and the Fund are reported on separately. These financial statements present the financial position and results of operations of the Trust.

The Fund's annual expenses are funded by and reported as part of the Trust in accordance with The Islands Trust Act. These expenses are summarized as follows:

	2016	2015
Operations	\$ 432,813	\$ 433,061
Board	15,155	17,319
Property management	156,306	132,925
	<u>\$ 604,274</u>	<u>\$ 583,305</u>

(b) Deferred revenue:

The Trust administers trust activities on behalf of development applicants on a cost-recovery basis. The activities are as follows:

	2016	2015
Cash received during the year	\$ 9,200	\$ 10,409
Cash paid during the year	10,784	16,645

The net payable from development applicants of \$6,642 (2015 - \$3,439) is reported as deferred revenue on the statement of financial position.